

# **Overview of the Tennessee Workers' Compensation Market Conditions**

Tennessee Workers' Compensation  
Advisory Council

September 5, 2006

By: Mike Shinnick

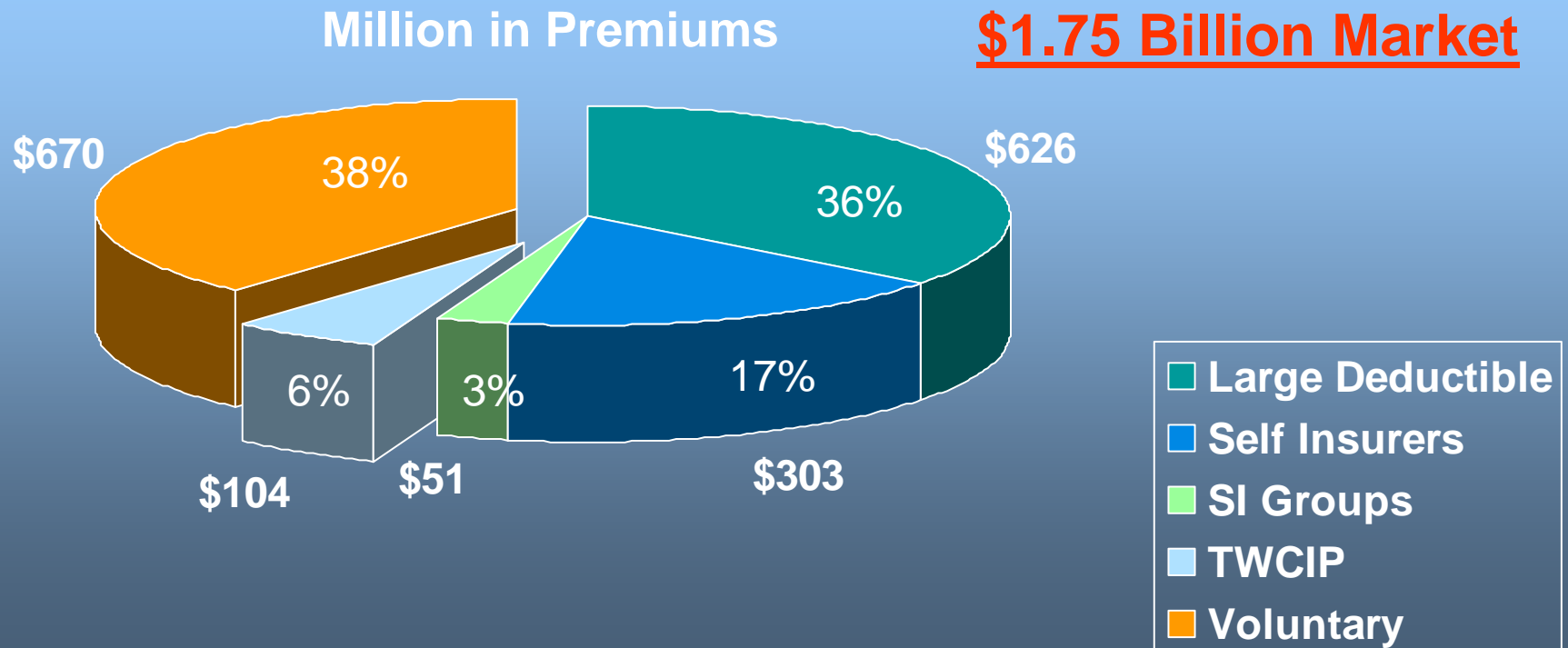
Tennessee Department of Commerce & Insurance

# Outline

- Market Segmentation
- National Picture
- Tennessee Specific
- Assigned Risk Pool
- Self-Insurance
- Update on Company Insolvencies

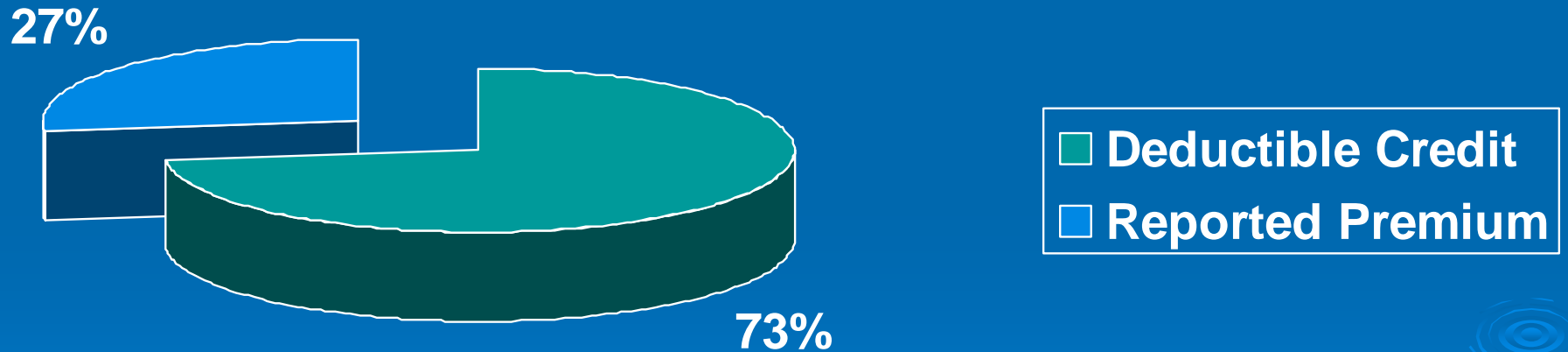
# 2005 Market Segments

*Large Deductibles are represented on a non-credited basis; Self Insureds are on an equivalent basis*

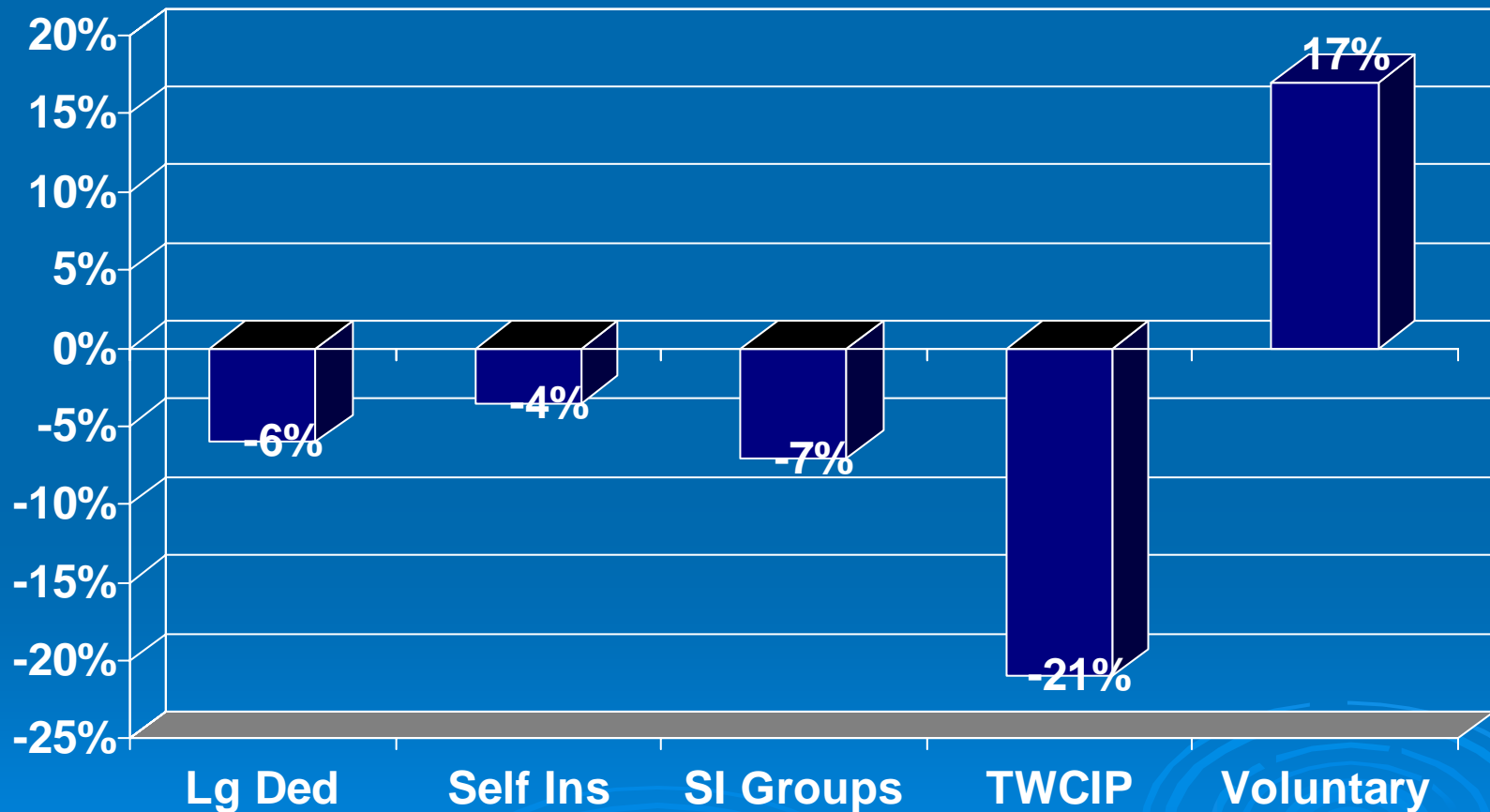


Large Deductible Premium is gross/estimated; SI Groups exclude government groups.

# Percentage of Manual Large Deductible Premium Dollars Reported



# Premium Change in Market Segments from 2004 to 2005



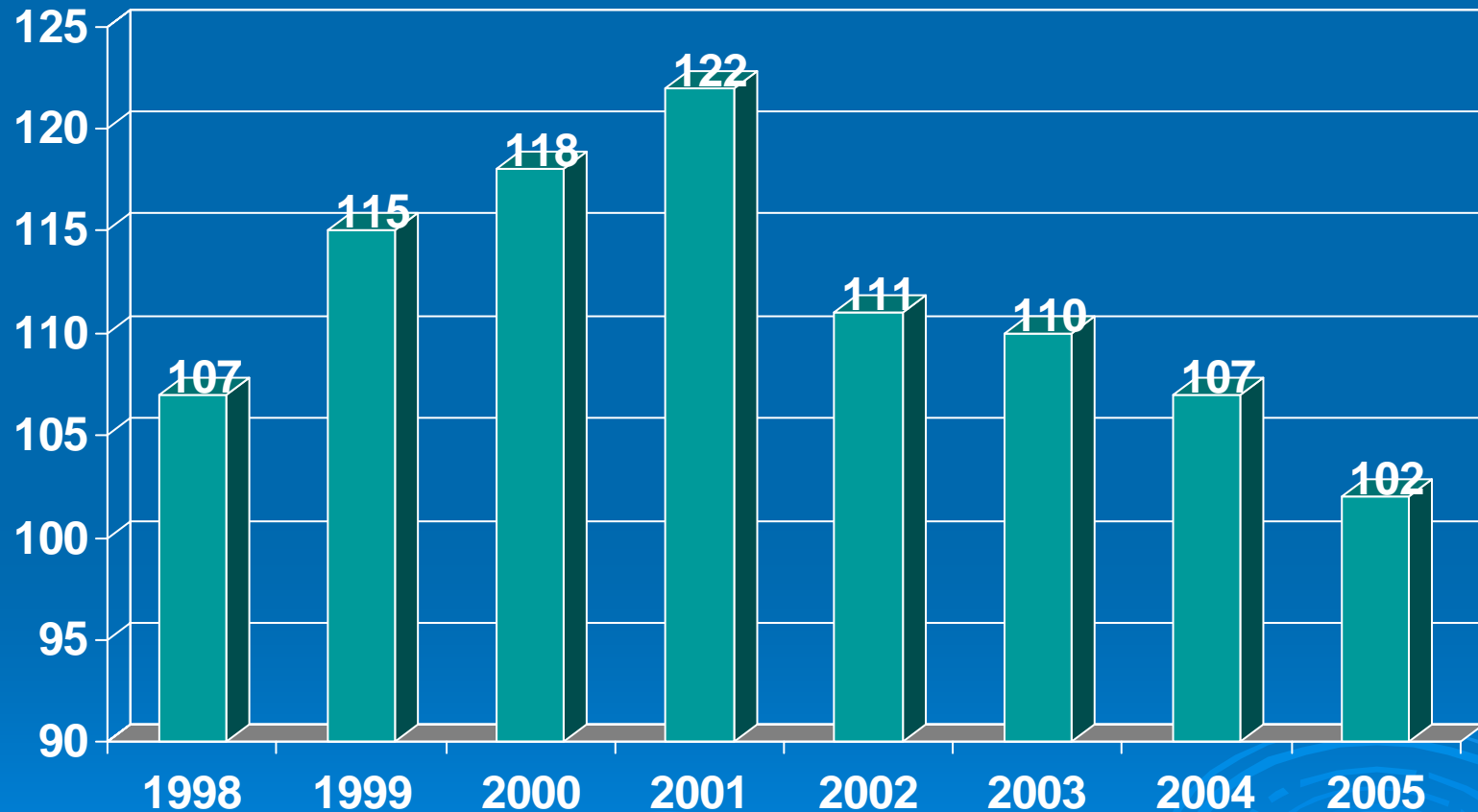
# National Picture

# P/C Industry Net Calendar Year Combined Ratios Improved Modestly in 2005

Line of Business	2004	2005
Personal Auto	94%	95%
Homeowners	94%	103%
Com. Multi Peril	101%	112%
Com. Auto	93%	94%
Workers' Comp	107%	102%
<b>Total All Lines</b>	<b>98%</b>	<b>101%</b>

Source: 2005, A.M. Best Aggregates & Averages; 2005p Total, ISO; 2005p LOB, NCCI

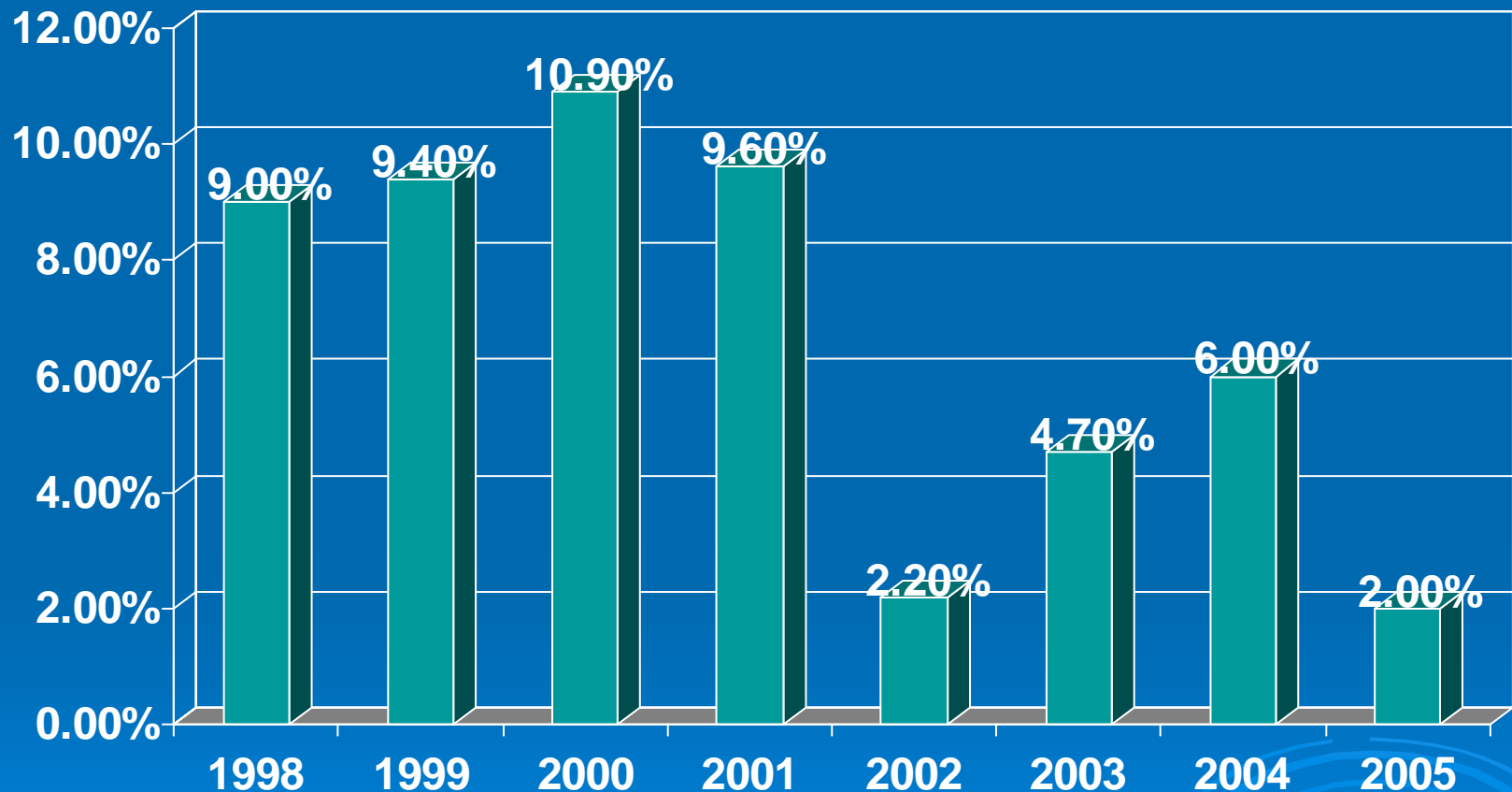
# WC Calendar Year Combined Ratios – Private Carriers



Source: NCCI (2005 preliminary)

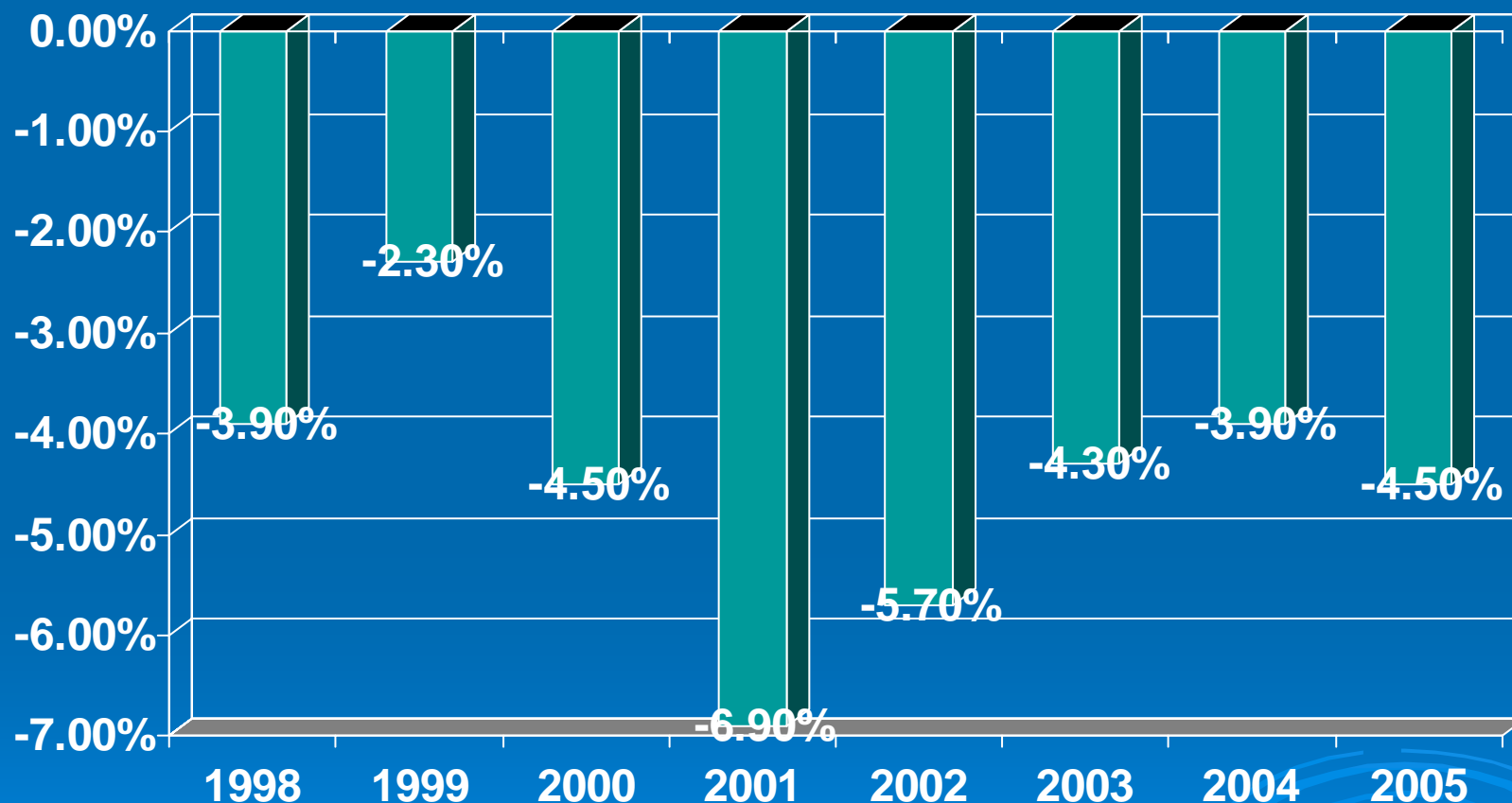


# The Growth in WC Indemnity Claim Costs Has Eased In Recent Years



Source: NCCI (2005 preliminary)

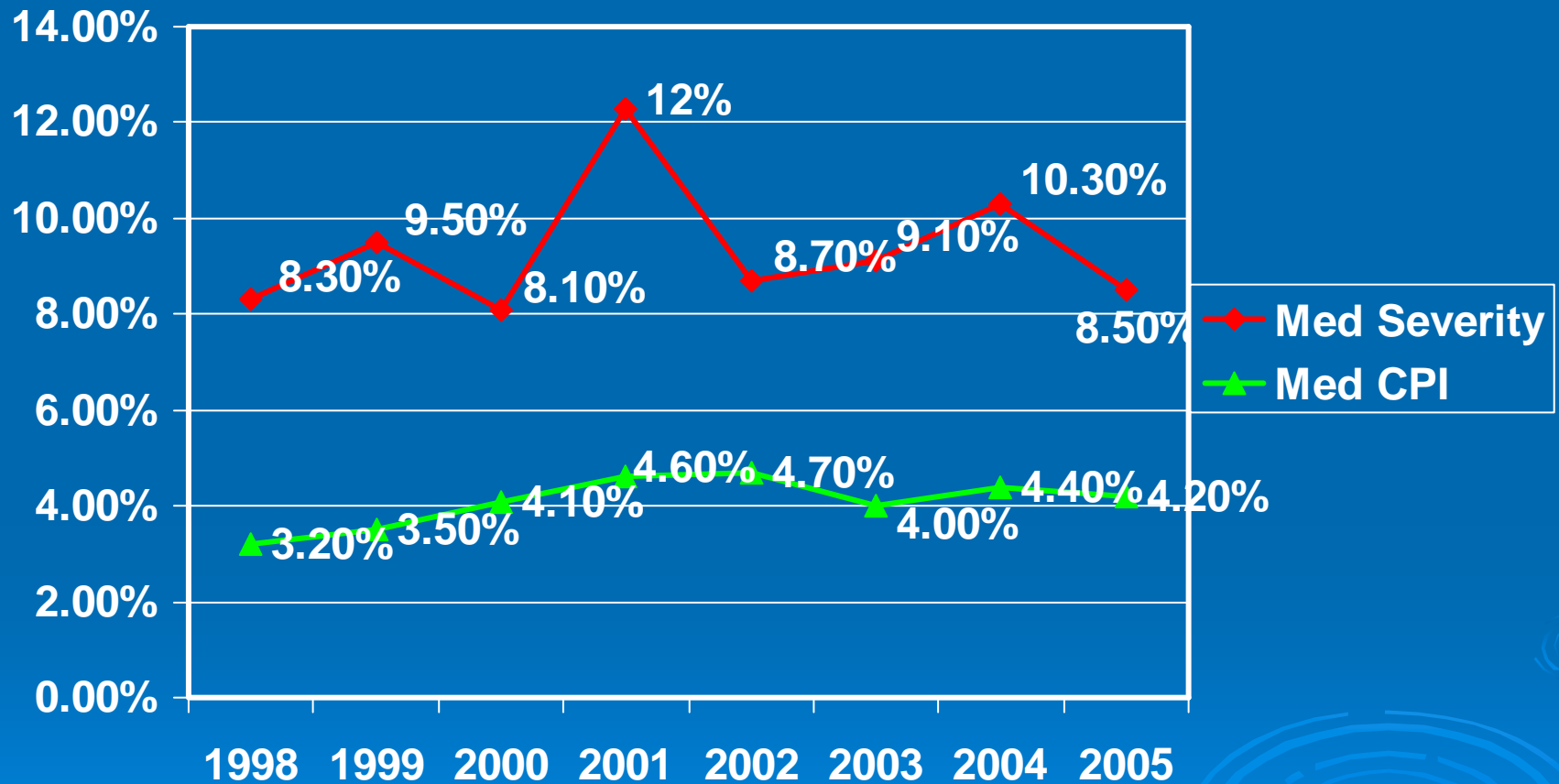
# Lost Time Frequency Continues to Decline



Source: NCCI (2005 preliminary)

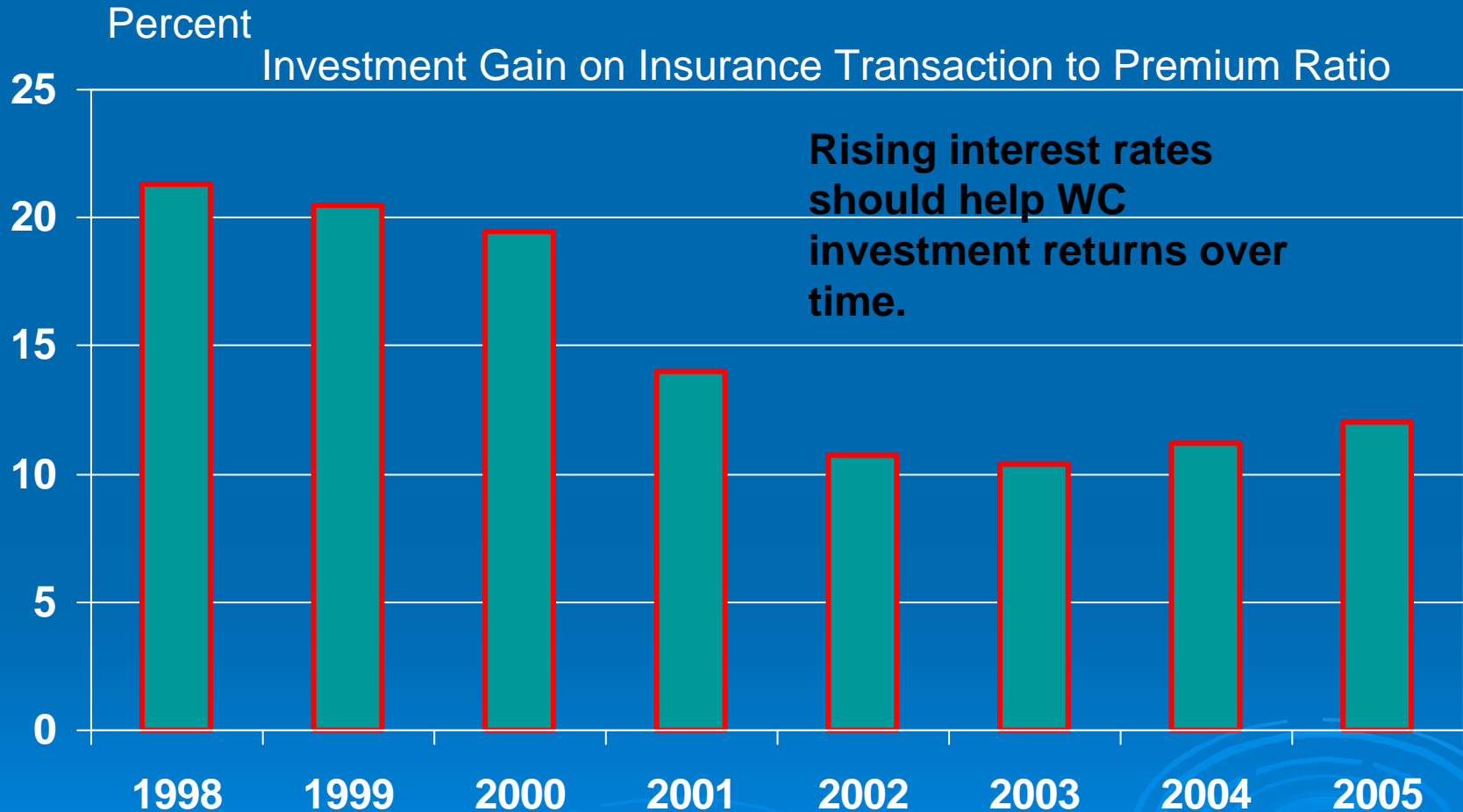
# WC Medical Claim Cost Trends

(Lost Time Cases)



Source: NCCI (2005 preliminary); Med CPI from US Bureau of Labor Statistics

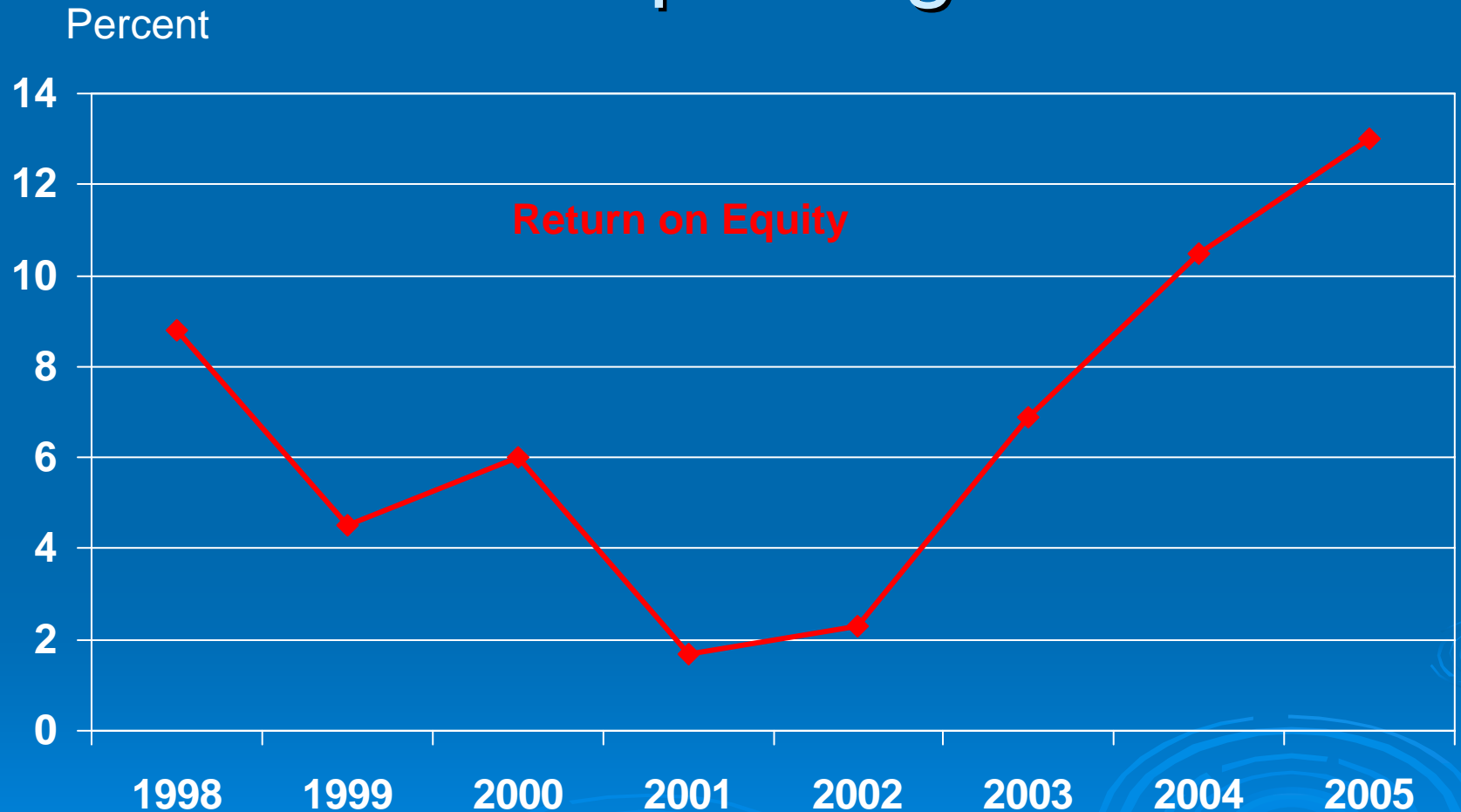
# WC Low Investment Returns Persist: Low Interest Rates



Source: III/AM Best/NCCI (2005 is estimated)

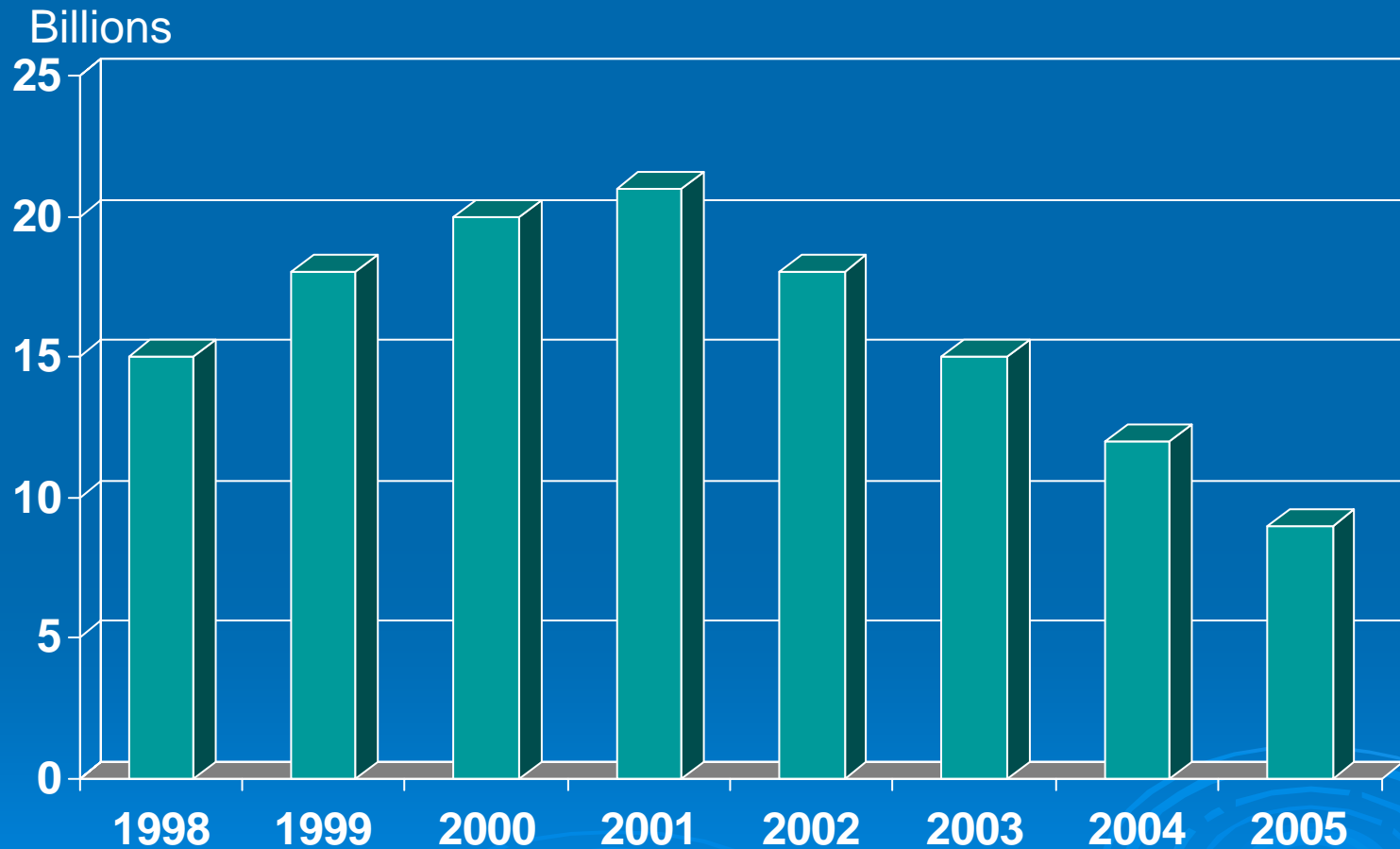
Private Carriers

# WC Underwriting Profitability Shows Improving Trend



Source: AM Best (2005 is estimated)

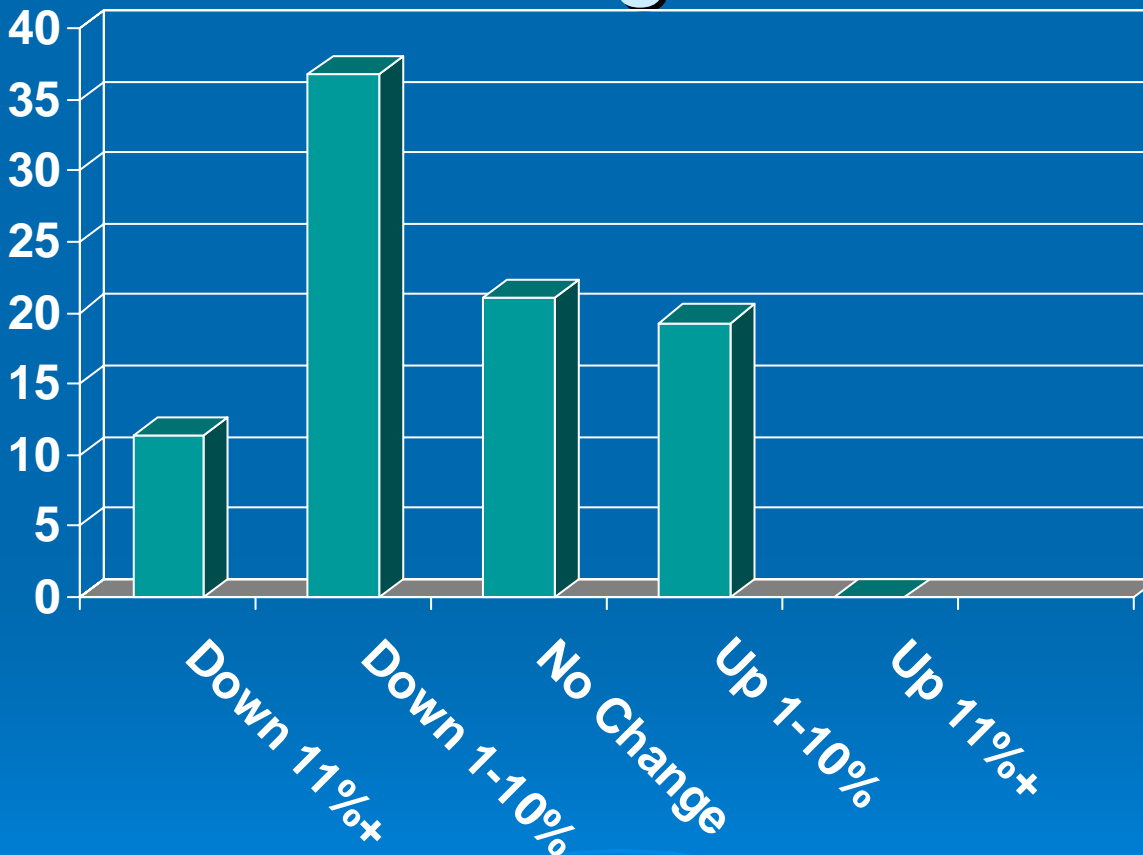
# WC Reserve Deficiencies Continue to Decline



Source: NCCI (2005 preliminary)

# According to Goldman Sachs, Most Survey Respondents See Flat or Declining WC Prices

Percent



**Agent  
Responses  
on Policy  
Renewal  
Premiums  
vs. 12  
Months  
Prior**

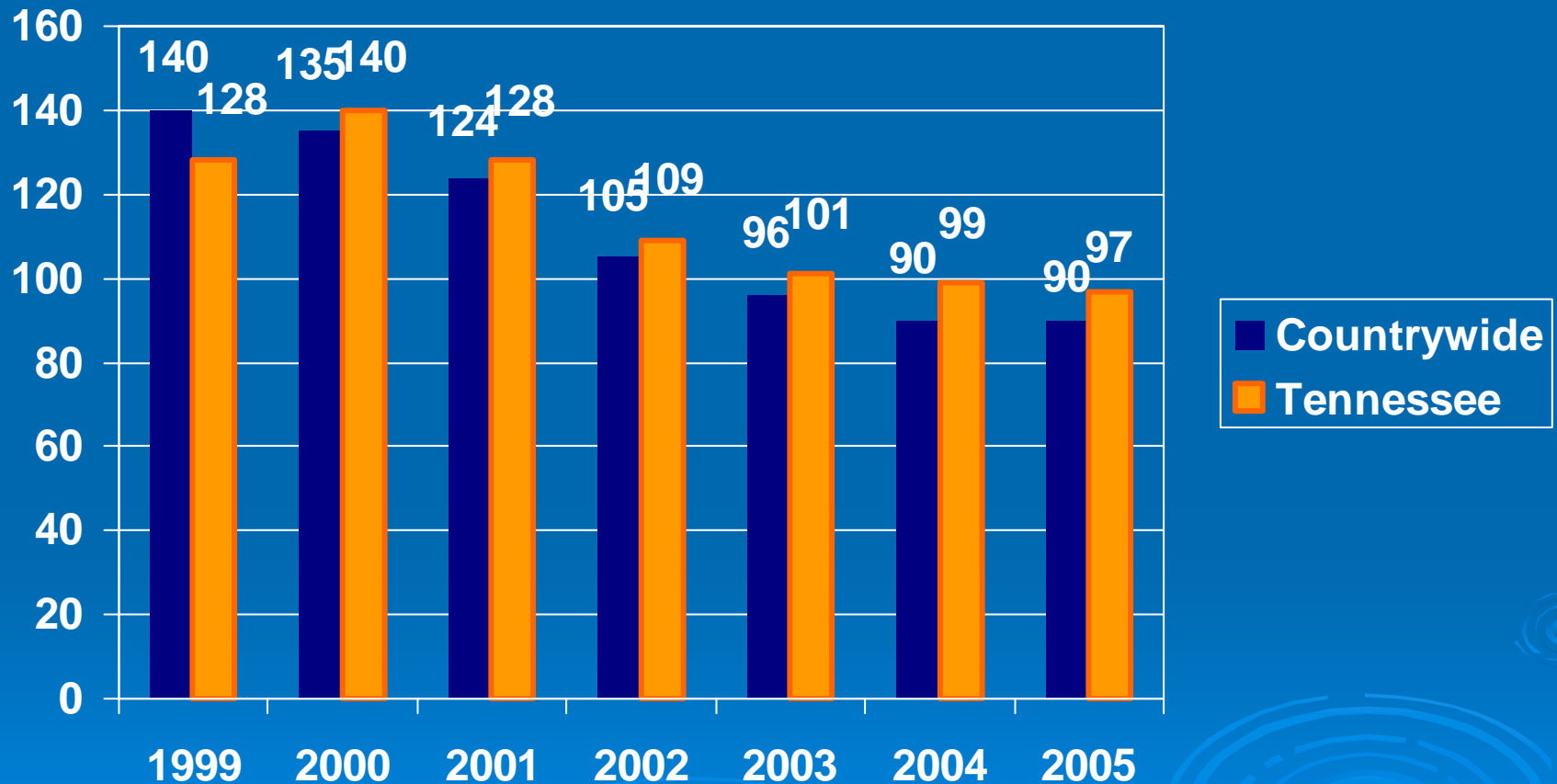
Source: Goldman Sachs Research, Insurance: Non-life Proprietary Survey – January 2006

# Tennessee Specific



# Accident Year Combined Ratios

## Tennessee Trailing Countrywide Results



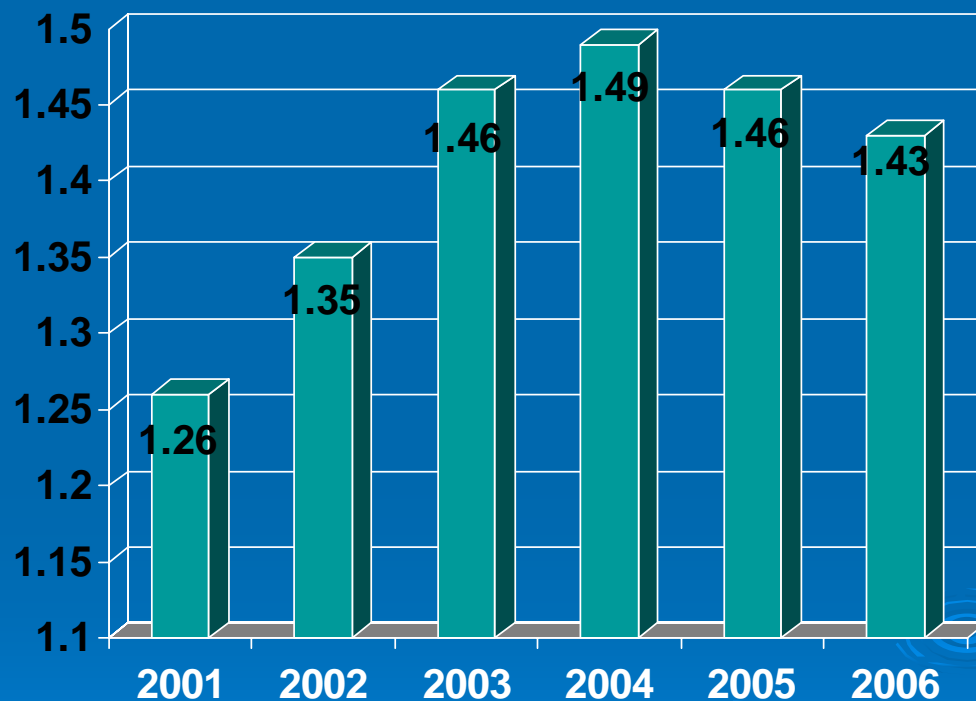
Source: NCCI; 2005 Preliminary

# Loss Cost Filing & Final Approvals since March 1, 2000

Year Filing Made	NCCI Filed Rate	Advisory Council Recommendation	Commerce & Insurance Approved Rate	Effective Date
1999	+3.3%	+7.0%	+7.0%	3/1/2000
2000	No Filing Submitted	Not Applicable	Not Applicable	Rates Effective 3/1/2000 Continue
2001	+0.5%	+1.4%	+1.4%	3/1/2002
2002	-3.1%	0.0% (with each class code relative to be adjusted accordingly)	0.0% (with each class code relative to be adjusted accordingly)	3/1/2003
2003	+7.9%	+7.9%	+7.9%	3/1/2004
2004	-6.3%	-6.3%	-6.3%	9/1/2004
2005	+3.9%	+3.9%	+3.9%	7/1/2005
2005	-6.9%	-6.9%	-6.9% (net -3.3%)	7/1/2005
2006	1.6%	1.6%	1.6%	3/1/2006

# Tennessee Voluntary Market Loss Cost Multipliers (LCMs)

The loss cost multipliers in the voluntary market appear to have peaked in 2004. Multipliers are based on prior year “weighted average” market shares.



# 2006 LCM Distribution

*by Direct Premium Written (active only)*

**Median 1.41**



✓ 90% above 1.17

✓ 90% below 1.71

✓ 8% above 1.85 Assigned Risk LCM

# The Anatomy of a Loss Cost Multiplier:

## *Major Pricing Components*

- ✓ **Loss Cost Modifications\***: Deviations from the standard loss costs - .90 is a 10% downward deviation.
- ✓ **Schedule Rating**: This reflects individual risk pricing modification not reflected in the experience modification: +/- 25%.
- ✓ **Dividend Programs**: Expected payments from surplus typically based on individual risk loss experience.
- ✓ **Projected Expenses\***, including profit loads offset for investment income

\* These are the two key drivers of the LCM

# **2005 Tennessee Price Competition derived from Loss Cost Multiplier filings**

- **Average loss cost modification is -6%**
- **Average schedule credit is -3%**

# Overview of Voluntary Market Conditions

- Profitability continuing in the market
- Carriers continue to focus on the underwriting side
- Prices are softening
- Increasing interest rates a plus; stock market seeing some modest improvement
- 18 new companies since 12/15/05
- Reinsurance catastrophe capacity is abundant

# Overview of Voluntary Market Conditions

- Softening reinsurance catastrophe pricing
- Reinsurance terms and conditions improved
- Stable marketplace

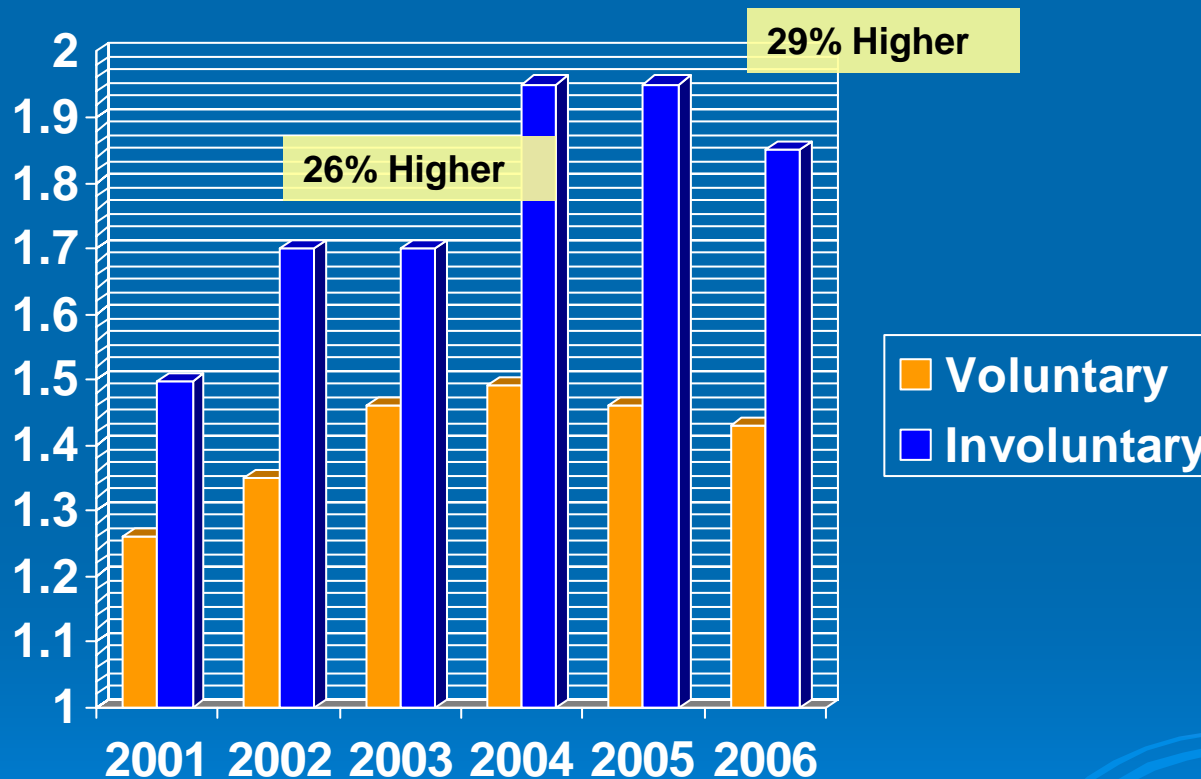


# TWCIP

## “The Assigned Risk Pool”

# LCM History

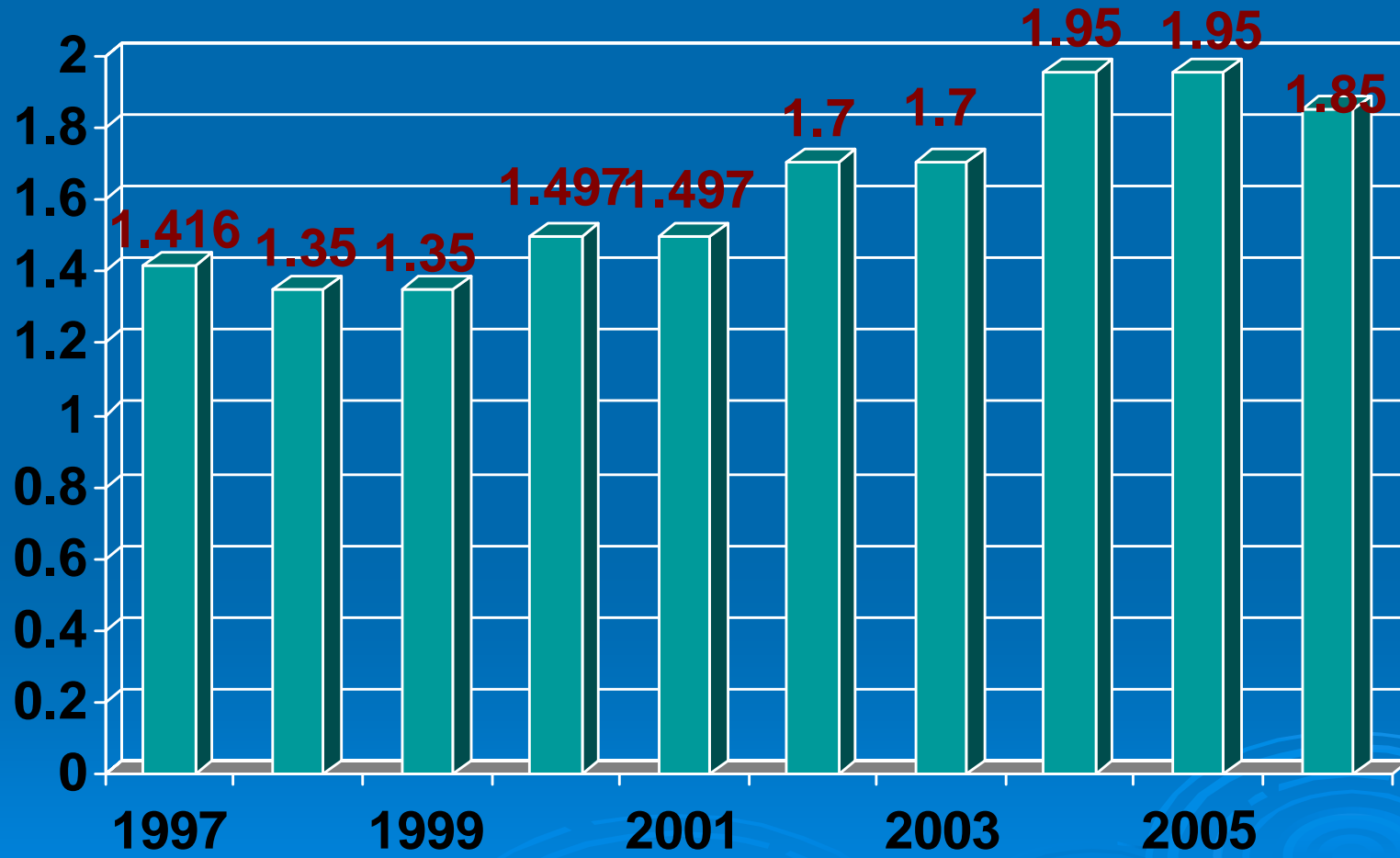
## Voluntary vs. TWCIP



Voluntary LCM is an Average

# Assigned Risk Multiplier

1.43 Avg. Voluntary Market LCM for 2006



# Summary of TCA § 56-5-314(3)

- No later than July 1 of each year, the commissioner shall report whether the membership for the prior year in the assigned risk pool exceeds 15% of the membership of the eligible employer market, not including self-insurance.
- If the percentage exceeds 15%, the commissioner shall issue a report to the workers' compensation advisory council stating the percentage and recommending one of the following actions:
  1. Activate the state workers' compensation insurance fund
  2. Implement a plan of direct assignment on a randomized basis of all assigned risk plan policies
  3. Take other actions
  4. Take no action at all

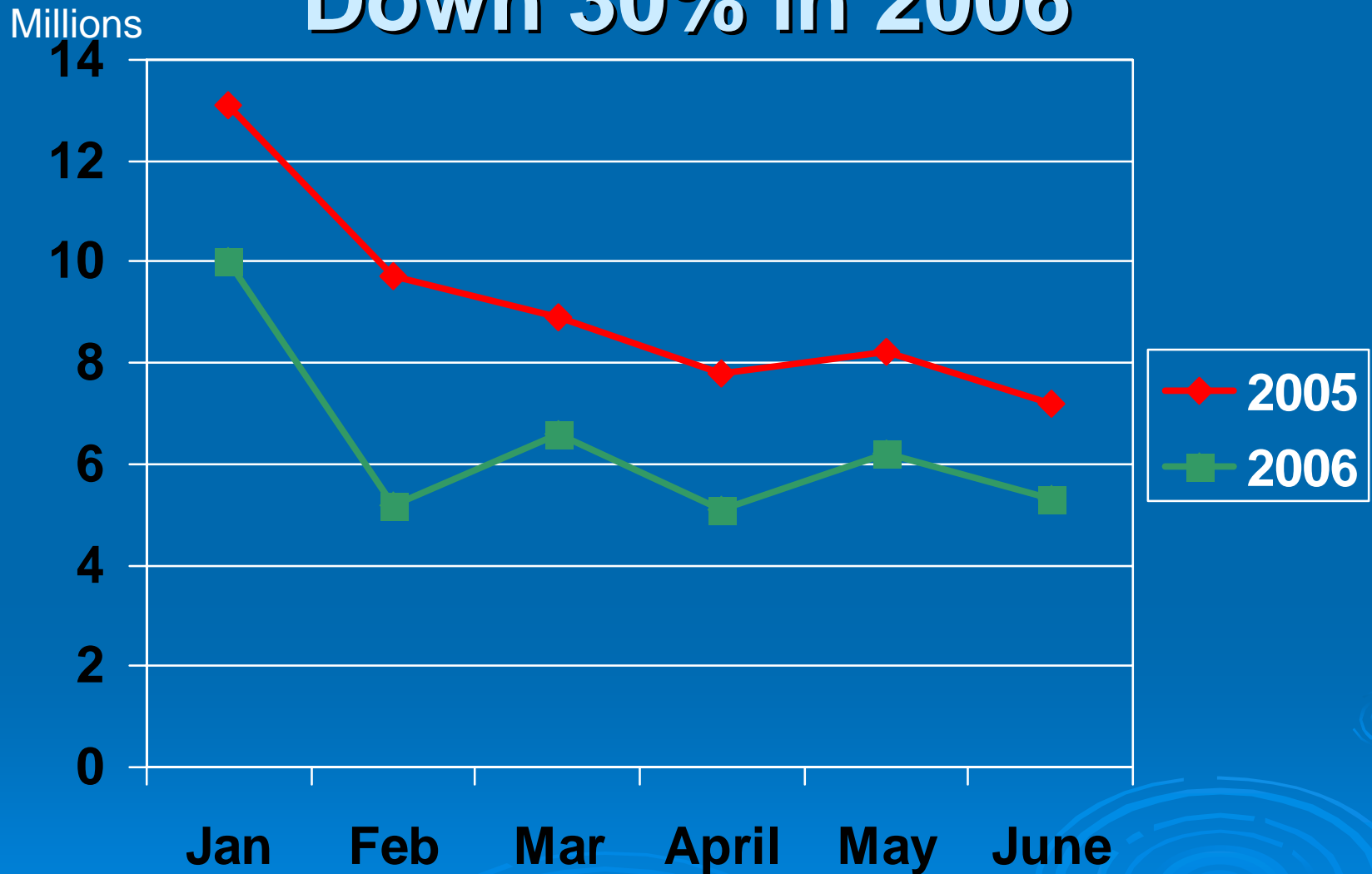
# TWCIP Depopulation Initiatives

- Beginning January 1, 2005, policyholders must reapply every three years. Two declination letters from the voluntary market are required.
- Letter from Commissioner Flowers encouraging policyholders to add their names to the “shopping list” provided by AON.

# Assigned Risk Market Share



# Assigned Risk Bookings Falling: Down 30% in 2006



# Assigned Risk RFP Process

1. State Issues RFP	July 31, 2006
2. Disability Accommodation Request Deadline	August 7, 2006
3. Notice of Intent to Propose Deadline	August 9, 2006
4. Written Comments Deadline	August 14, 2006
5. State Responds to Written Comments	August 28, 2006
6. Proposal Deadline (2:00 p.m.)	September 12, 2006
7. State Completes Technical Proposal Evaluations	September 19, 2006
8. State Opens Cost Proposals and Calculates Scores	September 20, 2006
9. State Issues Evaluation Notice and Opens RFP Files for Public Inspection	September 21, 2006
10. Contract Signing	October 4, 2006
11. Contract Signature Deadline	October 11, 2006
12. Performance Bond Deadline	October 13, 2006
13. Contract Start Date	January 1, 2007



2005

# Self Insurance

# List of Self-Insured Groups

Self-Insured Groups	Examinations
Associated Builders & Contractors of TN	In Progress/Draft Form
Comptrust Agency Tennessee	
Home Builders Association of TN	In Progress
TN Association of Business Company Owners' Managed Program	Completed
TN Automotive Association	
TN Forestry Association	In Progress
TN Health Care Association	Completed
TN Restaurant Association	In Liquidation
TN Road Builders Association	
TN Trucking Association Self-Insured Group Trust	In Liquidation

# Status of Rules

- Individual Self Insurance:  
Effective October 25, 2005
- Self Insurance Groups:  
Effective November 14, 2005
- TPA:  
Effective November 26, 2005

# Overview of Self-Insurance Market

- **Self-Insured Employers** – 132
- Number of employees – 285,014
- Total “Premium Equivalent” – \$303 million
  
- **Self-Insured Groups** – 8
- Number of employees – 52,575
- Total Premium – \$51 million

# Insolvencies

- *Individual carrier data included in this section includes insolvencies over \$1 Million in total losses*

# WC Insolvency Data

## ➤ Reliance Insurance Company (PA domestic)

- Certificate of Authority restricted April 20, 2001
- October 3, 2001 liquidation date.
- TN reserves and claims count as of June 30, 2006:
  - **Total number of claims:** 1,736
  - **Total amount paid:** \$26,300,509
  - **Total unpaid claims:** \$24,080,487

# WC Insolvency Data

## ➤ Home Insurance Company (NH Domestic)

- License suspended September 15, 2000
- June 13, 2003 liquidation date
- TN reserves and claims count as of June 30, 2006:
  - **Total number of claims:** 115
  - **Total amount paid:** \$ 1,465,036
  - **Total unpaid claims:** \$ 3,007,383

# WC Insolvency Data

## ➤ Reciprocal of America (VA Domestic)

- License revoked July 31, 2003
- June 20, 2003 liquidation date
- TN reserves and claims count as of June 30, 2006
  - **Total number of claims:** 310
  - **Total amount paid:** \$ 1,017,756
  - **Total unpaid claims:** \$ 3,103,003



# WC Insolvency Data

## ➤ Legion & Villanova Ins Co (PA domestics)

- Certificate of authority restricted April 20, 2001
- July 28, 2003 liquidation date.
- TN reserves and claims count as of June 30, 2006:
  - **Total number of claims:** 1,841
  - **Total amount paid:** \$27,057,303
  - **Total unpaid claims:** \$24,184,211

# WC Insolvency Data

## ➤ Casualty Reciprocal (MO Domestic)

- Suspended October 22, 2003
- August 18, 2004 liquidation date.
- TN reserves and claims count as of June 30, 2006:
  - **Total number of claims:** 50
  - **Total amount paid:** \$ 758,726
  - **Total unpaid claims:** \$ 843,282

# WC Insolvency Data

## ➤ **Realm National Ins. Co. (NY Domestic)**

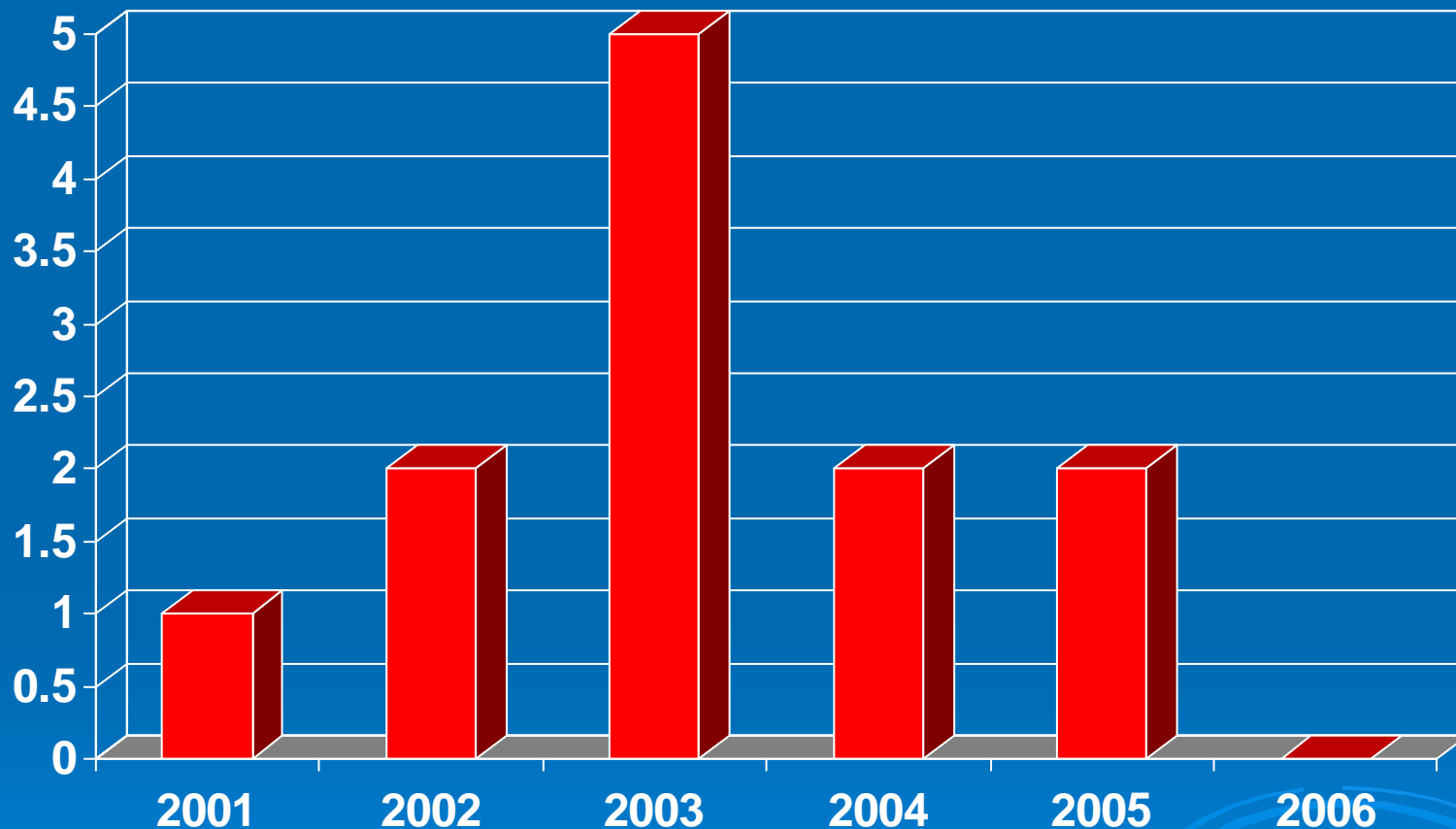
- Suspended March 17, 2004
- June 16, 2005 liquidation date.
- TN reserves and claims count as of June 30, 2006:
  - **Total number of claims:** 48
  - **Total amount paid:** \$ 658,350
  - **Total unpaid claims:** \$ 1,716,883

# WC Insolvency Data

## On the radar screen:

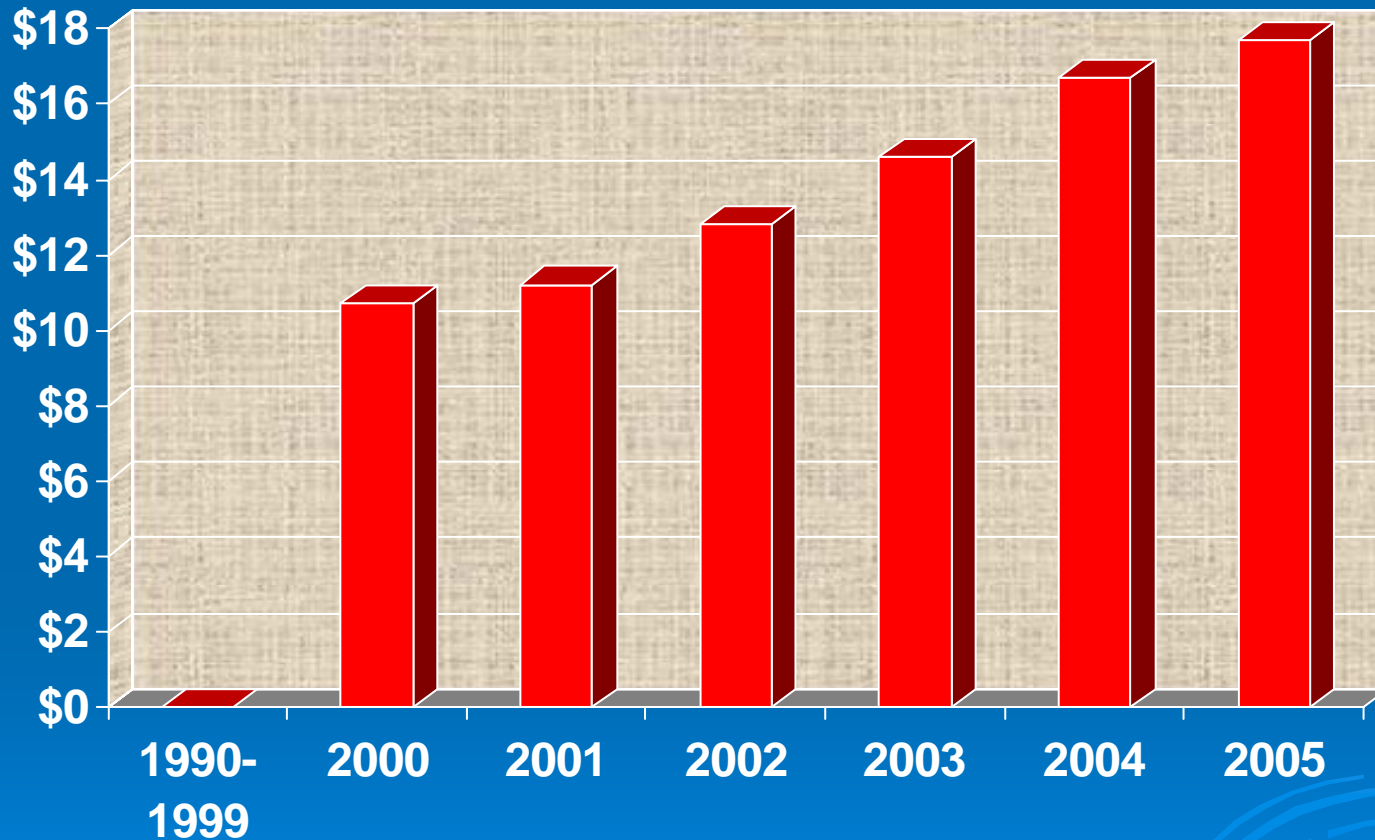
- **Kemper Group (IL Domestic)**
  - Agreed Orders entered by Commissioner Flowers on July 6, 2005 suspending Kemper Companies licensed in TN.
  - Premium as of December 31, 2005: \$873,858
    - **\$18.5 Million in unpaid losses**

# Number of WC Carrier Insolvencies Per Year



**2003 Legion/Villanova combined & shown as one**

# Guaranty Fund Assessment History (Millions)



# TN Trucking Association Self-Insurance Group Trust

- Primarily Operated: 2002 - 2003
- 53 Members
- Petition for liquidation: February 6, 2004
- \$7.8M deficiency – 306 open at date of liquidation; currently 63 open claims
- Presently, two assessments totaling \$7.8M – requiring collection actions, including garnishments

# TN Trucking Association Self-Insurance Group Trust

➤ Extensive litigation has slowed the liquidation process. A small number of members have:

- Objected to the assessment methodology which was approved by Davidson Co. Chancery Court. Members appealed to TN Court of Appeals and Liquidator received a favorable opinion. Members made application for permission to appeal to the TN Supreme Court (pending).
- Refused to pay the court ordered assessment. A show cause order filed as to why they should not be held in contempt of court. Bank accounts were garnished. Members appealed to TN Court of Appeals and Liquidator received a favorable opinion. Members applied for permission to appeal to the TN Supreme Court (pending).
- Objected to Liquidator's fees and expenses which the trial court approved. Members appealed this issue to TN Court of Appeals where it was remanded to the trial court.



# TN Trucking Association Self-Insurance Group Trust

- Individual directors filed a third-party complaint against the Trust's former TPA. The directors allege they were beneficiaries of the administrative services agreement between the TPA and the Trust, and that the TPA breached its contract with the Trust.
- Chancery Court dismissed breach of fiduciary duty claims, but allowed the individual directors to proceed with a suit against the TPA for breach of contract and negligence after the Commissioner (as Liquidator) had reached a comprehensive settlement with the TPA on behalf of the Trust.

# TN Restaurant Association Self-Insurance Group Trust

- Primarily Operated: 1994 through 2005
- Over 600 Members
- Petition for liquidation: December 9, 2005
- \$1.5M deficiency – 130 open claims
- Presently, one assessment totaling \$1.5M – Approximately 50% collected
- Preparing to implement collection actions -  
- for assessments from non-paying members

# Market Summary

## POSITIVES

- Results Improving
- Frequency continues to decline
- Industry progress in reserve deficiency
- Significant reduction in population of residual market

## NEGATIVES

- Medical severity continues rapid growth
- Low investment returns continue to pressure underwriting results

# Summary: Significant NCCI filings reported quarterly

- **URE Workers' Compensation Statistical Plan update** – The filing clarified, reformatted, and added verbiage to the Statistical Plan which provides specifications for the reporting of data used to calculate experience modification factors and other purposes. Eff. 1/1/2006
- **Tennessee Terrorism Risk Insurance Extension** - This filing was to implement the provisions of the Terrorism Risk Insurance Extension Act of 2005. A separate filing was made for the Assigned Risk pool. Eff. 1/1/2006
- **Revision to Basic Manual Classifications for the Aviation Industry** - The purpose of this item was to clarify, eliminate, or combine classifications in the Basic Manual for Workers Compensation and Employers Liability Insurance for the aviation industry to reflect current business and industry needs. Eff. 3/1/2007
- **Amendment to Class Filing B-1399 – Exposure Transition Program** – After feedback from several regulators, it was determined that a transition program was needed for Code 7425, Aircraft or Helicopter Operation: NOC – Helicopters: Flying Crew. Eff. 3/1/07

# Overview of the Tennessee Workers' Compensation Market Conditions

## Questions?